July 28, 2006: Everett Introduces Farm Risk Management Act

CONGRESSMAN TERRY EVERETT INTRODUCES FARM RISK MANAGEMENT ACT

Everett Bill Seeks Creation of Accounts to Better Enable Farmers to Manage Risk

To enable America’s farmers to better manage the risk to their livelihoods in times of severe weather and skyrocketing energy costs, Congressman Terry Everett, R-Alabama, introduced Thursday the Farm Risk Management Act in the U.S. House of Representatives.

The legislation seeks to create risk management accounts using both USDA and individual farmer contributions aimed at reducing the financial impact of disasters on the agriculture community. Everett’s Farm Risk Management Act would allow farmers to insure their income by creating a whole-farm risk management program based on total revenues from all their farming activities and not linked to the farmer’s production of a particular commodity like the present crop insurance program.

The new risk management account goes beyond the scope of current crop insurance by allowing farmers to withdraw funds from their accounts to help offset any unforeseen farm expense including high energy or fertilizer costs. “More and more, we are seeing farmers lose their farms due to the unfortunate combination of increasingly harsh weather, rising operational costs and a Federal crop insurance program that is too expensive to help many cover their losses,” said Everett, a senior member of the House Agriculture Committee.

“Recent Farm Bill hearings and subsequent meetings I have had with farmers in the Southeast have led me to the conclusion that current crop insurance programs are not working. The present system is too expensive, leaving many farmers exposed to uncontrollable risks. It also allows room for fraud which only serves to drive up program costs for everyone.

“There is an urgent need for significant crop insurance reform that will offer hard-working farmers the tools they need to manage the unique risks involved in agricultural production. With the upcoming Farm Bill reauthorization, we have a chance to address this critical issue, and I am offering this legislation to advance debate,” he added.

“This approach of individual risk management accounts could address many of the problems associated with the current crop insurance system and save the Federal government money by alleviating the future need for ad hoc disaster assistance. Most importantly, it will give farmers struggling against natural forces beyond their control great flexibility to make a living while performing the vital task of putting food on America’s table.”

“With my new proposal, a farmer would deposit money into the new risk management account. The U.S. Department of Agriculture would then match the farmer’s contribution in this tax-deferred, interest bearing account, rather than subsidizing a portion of the crop insurance premium for the farmer as is done presently. As a result, farmers would effectively be self insured.”

The new Everett Farm Risk Management Account provisions provide the following:

- Farmers could insure their income based on average gross income and would be afforded whole-farm coverage rat than coverage by specific commodity.

- The farmer would be required to deposit at least two percent of his gross farm income into the new account. Maxim deposits of up to 150 percent of the producer’s gross farm income would be allowed.

- The USDA would match the farmer’s contribution of two percent in the tax-deferred interest bearing account

- During the first year, 25 percent of the farmer’s crop insurance premium would go to the Farm Risk Manage Account and the remaining 75 percent would remain in conventional crop insurance coverage.

- During the second year, 50 percent of the farmer’s contribution would go to the Farm Risk Management Acc and the remaining 50 percent to conventional crop insurance.

- During the third year of transition, 75 percent of the farmer’s contribution will go to the Farm Risk Manageme Account with 25 percent in conventional crop insurance

- By year four, the farmer would be fully invested in the new Farm Risk Management Account.

“At my request,” Everett noted, “the USDA published a report that was released in June examining various safety net alternatives to crop insurance programs, including the farm risk management accounts. The USDA found that these accounts may overcome some disadvantages of current crop insurance programs. Risk protection from the new accounts will depend upon the reserves in the individual accounts, but this money can also be applied to a wide variety of farming situations, making them of greater use to the farmer.”